CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

September 15, 1998

Security Assistance Act of 1998

As ordered reported by the Senate Committee on Foreign Relations on July 23, 1998

SUMMARY

The bill would authorize the transfer of 48 naval vessels by grant, sale, or installment sale and the sale of excess defense articles of the Coast Guard. CBO estimates that the disposal of the naval vessels and Coast Guard articles would reduce spending by $637 million in 1999 and by $1 million in 2001. The bill would authorize an increase in the War Reserve Stockpile for Allies (WRSA) for Korea and Thailand and provide the Secretary of Defense with the authority to transfer items in the WRSA to Korea and Thailand in return for concessions including cash, services, waiver of charges, or other items of value. CBO estimates that the provisions would raise direct spending by about $30 million annually over the 1999-2003 period because the Defense Department would probably substitute barter for sales. The combined effect of these provisions would be to lower spending by about $607 million in 1999 and raise it by about $30 million a year over the following four years. Because the bill would affect direct spending, pay-as-you-go procedures would apply.

Other provisions in the bill would authorize the use of Department of Defense funds for the packing, handling, and transportation of excess defense articles for transfer to countries participating in the Partnership for Peace program. The bill would also require additional reports and notifications related to foreign military sales and training. CBO estimates that spending for these provisions would amount to $1 million to $2 million a year, assuming appropriation of the necessary amounts.

The Unfunded Mandates Reform Act (UMRA) excludes from application of that act legislative provisions that are necessary for the national security. CBO has determined that the provisions of this bill either fit within this exclusion or do not contain private-sector or intergovernmental mandates as defined by UMRA.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of the bill is shown in the following table. The costs of this legislation fall within budget functions 050 (national defense) and 400 (transportation). The estimate assumes enactment of the bill in time to permit the sale of naval vessels in early 1999.

	By Fiscal Year, in Millions of Dollars				
	1999	2000	2001	2002	2003
DIRECT SPENDING					
Estimated Budget Authority	155	30	30	30	30
Estimated Outlays	155	30	30	30	30
ASSET SALES[a]					
Estimated Budget Authority	-762	0	-1	0	0
Estimated Outlays	-762	0	-1	0	0
SPENDING SUBJECT TO APPROPRIATION					
Estimated Authorization Level	2	2	b	b	b
Estimated Outlays	2	2	b	b	b

a. Under the Balanced Budget Act of 1997, proceeds from a nonroutine asset sale may be counted for purposes of pay-as-you-go scoring only if the sale would entail no net financial cost to the government. CBO estimates that the nonroutine asset sales that would result from enacting the bill would generate a net savings to the government, and therefore that the proceeds would be counted for pay-as-you-go purposes.

b. Less than $500,000.

Transfer of Vessels. Title II would authorize the transfer of 48 naval vessels to foreign countries. Nine would be given away, 34 would be sold outright, and 5 would be sold on an installment basis. Giving away vessels would have no budgetary impact. Based on information from the Navy, CBO estimates that gross proceeds from selling the other 39 ships would total $762 million. In addition, CBO believes that selling the five ships in installments of more than 90 days meets the definition of a direct loan subject to the requirements of the Federal Credit Reform Act of 1990 (FCRA). The authority to incur new direct loan obligations constitutes budget authority in an amount equal to the cost, as defined by section 502 of FCRA, of financing the installment sale. CBO estimates that the cost of the loan would be about $125 million.

Section 112 would permit the sale of excess Coast Guard equipment under the Arms Export Control Act (AECA). The Coast Guard usually disposes of excess defense articles through grants under section 516 of the Foreign Assistance Act of 1961, but it has received a request to purchase one vessel with an estimated market value of approximately $500,000. CBO estimates the sale would occur in 2001, when a particular vessel would be taken out of service.

Equipment Stockpiles in Foreign Countries. Subtitle C would authorize an additional $340 million worth of excess defense articles to be transferred to the war reserve stockpile for allies (WRSA) in Korea and Thailand. CBO estimates that this provision would have no budgetary impact.

In addition, the bill would permit the Secretary of Defense to augment defense appropriations through barter of items in the WRSA for Korea and Thailand. The Secretary could negotiate concessions including cash, services, waiver of charges, and other items of value. Because DoD has the authority to sell defense items from stock and the cash proceeds from sales are returned to the Treasury, CBO estimates that the Department of Defense (DoD) would substitute noncash concessions for sales that would occur under current law. CBO estimates that if the bill were enacted, forgone sales would total about $30 million a year, based on information from DoD about how it used similar authority in the past. (In 1996, DoD negotiated a package of concessions for items from the WRSA that had a fair market value of $67 million. That amount represents the impact of similar authority that DoD had over a two-year period.)

Other Provisions. The bill would authorize DoD to pay for the packing, crating, handling, and transportation of excess defense articles transferred to countries participating during 1999 and 2000 in the Partnership for Peace program with the North Atlantic Treaty Organization. Based on information from DoD, CBO estimates that the department would spend $1 million to $2 million a year on such activities, subject to the appropriation of the necessary funds.

The bill would require additional Congressional notifications and reports on military sales and training. Because DoD does not currently gather some of the required information, CBO estimates the new requirements would raise DoD's costs by up to $500,000 a year, assuming appropriation of the necessary funds.

Section 111 would permit foreign persons receiving training funded under the AECA to complete their course of study in situations in which assistance to their country of origin would otherwise be terminated. The authority would be discretionary and would apply to terminations after the date of enactment. CBO estimates that enactment of the section would not significantly affect the federal budget.

PAY-AS-YOU-GO CONSIDERATIONS

Section 252 of the Balanced Budget and Emergency Deficit Control Act sets up pay-as-you-go procedures for legislation affecting direct spending or receipts. The net changes in outlays and governmental receipts that are subject to pay-as-you-go procedures are shown in the following table. For the purposes of enforcing pay-as-you-go procedures, only the effects in the current year, the budget year, and the succeeding four years are counted.

	By Fiscal Year, in Millions of Dollars									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Changes in outlays	-607	30	29	30	30	0	0	0	0	0
Changes in receipts	Not applicable									

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

UMRA excludes from the application of that act legislative provisions that are necessary for the national security. CBO has determined that the provisions of this bill either fit within this exclusion or do not contain private-sector or intergovernmental mandates as defined by UMRA.

PREVIOUS CBO ESTIMATE

The National Defense Authorization Act for Fiscal Year 1999, H.R. 3616 as passed by the House and S. 2057 as passed by the Senate, would authorize the transfer of naval vessels subject to subsequent appropriation action. The Department of Defense Appropriation Act for Fiscal Year 1999, H.R. 4103 as passed by the House and Senate, would provide that authority. The CBO estimate of the required budget authority and proceeds from disposing of naval vessels is the same for all of the bills. If the defense appropriation bill is cleared by the Congress, the estimate for this bill would change.

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